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ARAB STATES - ISRAEL: The peace conference in Geneva ended its two-day opening session on December 22 with an agreement to set up a military working group to discuss the disengagement of Egyptian and Israeli forces and an understanding that the foreign ministers will be summoned to meet in plenary session "as needed in light of developments."

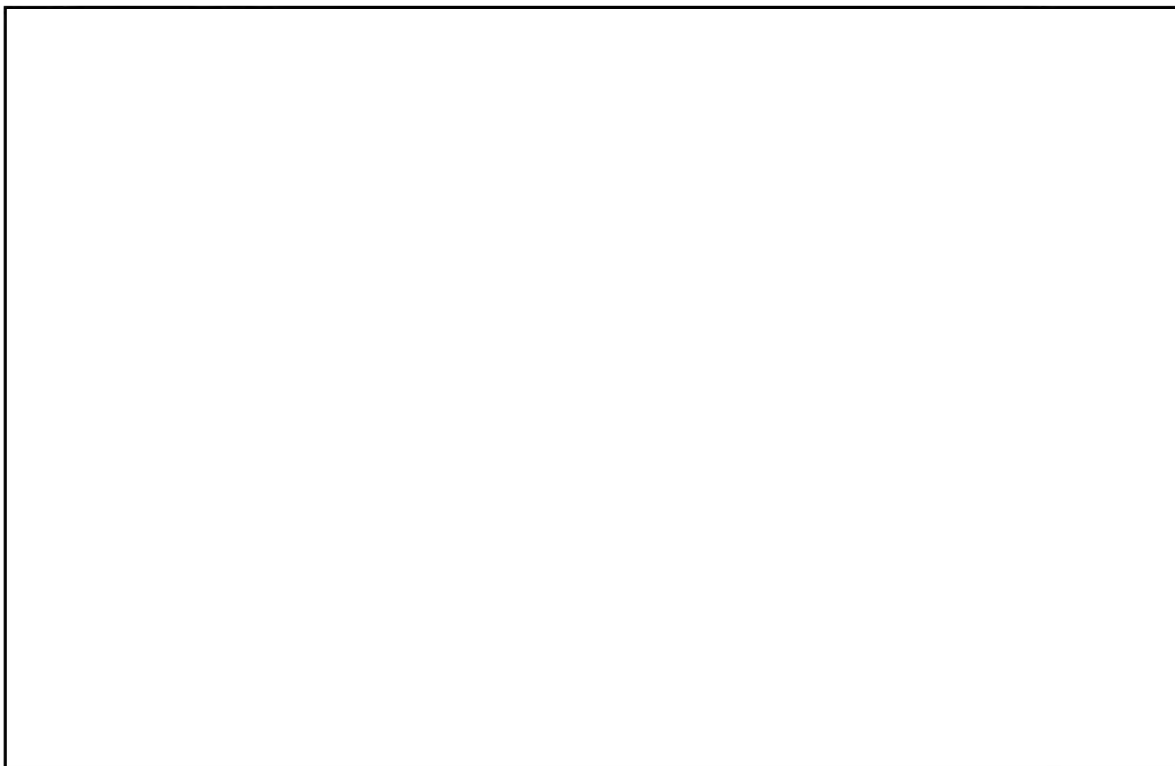
Egyptian and Israeli military representatives are expected to begin disengagement talks this week. An Egyptian spokesman in Geneva indicated that Cairo expects the meetings to begin "early" in the week, while a member of the Israeli delegation assured reporters that Tel Aviv had no objections to entering into the talks before the Israeli elections, scheduled for December 31. Israel's negotiator at the now-stalled talks at Kilometer 101, General Yariv, has expressed optimism that a disengagement of forces might be possible, although he conceded that he expects a "very tough discussion." Egypt's official spokesman told reporters in Geneva that he, too, sees a "ray of hope."

The Cairo media have portrayed the December 21 session of the Geneva conference as crisis-ridden. Major newspapers praised the tough stance taken by Egyptian Foreign Minister Fahmi on the necessity for full Israeli withdrawal from the occupied territories, emphasized the ways in which Israel's negotiating position differs from that of the other parties, and referred to the possibility of renewed fighting should the conference fail. Al Ahram noted that the most important achievement of the conference came on December 22 with the establishment of the military working group, but the paper added that this was not in itself an indication that the conference had gone beyond what was accomplished at the talks at Kilometer 101.

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Jordan's delegates state they are pleased with the results of the conference's opening session, but privately they are apprehensive about the implications of the decision to concentrate on the disengagement of Egyptian and Israeli forces. Amman radio warned yesterday that Israel is trying to break Arab solidarity, and counseled that the goal of the Arabs at Geneva should be to negotiate a separation of forces on all fronts at one time. The Jordanians are worried that Cairo will reach a settlement of issues relating to the Sinai and leave Amman alone to negotiate West Bank issues from a position of relative weakness.



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(Damascus radio yesterday described the first stage of the conference as the "beginning of the end" and charged that Israel will be able to stall progress in the military working group just as it did at the talks at Kilometer 101.

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The Israeli media devoted extensive--often live--coverage to the proceedings in Geneva. Press reporting has been factual, with editorial comment urging cautious optimism.

Jerusalem radio reported that the meeting on December 21 between foreign ministers Eban and Gromyko--the first high-level meeting between the Israelis and Soviets since 1967--was held "within the framework of Gromyko's authority as one of the chairmen of the peace conference." An Israeli spokesman added that Gromyko had received Eban at the residence of the Soviet delegation, but indicated that the meeting did not lead to any concrete or significant results. Asked later if the question of a resumption of Israeli-Soviet diplomatic relations had been discussed, Eban refused comment.

Soviet media coverage of the peace conference has been generally optimistic. Nevertheless, Pravda has cited the Israeli "expansionist spirit" and has carried negative accounts of Eban's opening speech and of Prime Minister Meir's statement at Haifa that not all occupied Arab lands would be returned. TASS has carried accounts of Egyptian claims to speak for all Arab states, and has referred to the possibility that other delegations, notably the Syrian, may participate at later stages.

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According to the Middle East News Agency, the number and intensity of cease-fire violations on the Egyptian front increased significantly over the week-end. Although most of the reported incidents involved only small-arms fire, others, according to the MENA account, were "severe battles" that included exchanges of artillery, mortar, and tank fire. Other sources have not confirmed such a significant increase in military activity.

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LEBANON: Major cities were quiet over the week-end, after four days of demonstrations protesting the sharply rising cost of living. Prime Minister Sulh pledged on December 21 that the government will strive to lower food prices, but this statement appears insufficient to halt planning for a nationwide general strike on February 6.

Violence began on December 17 in the northern city of Tripoli, where antigovernment demonstrators clashed with supporters of President Franjiyah. The following day a general strike halted almost all commercial activity in the city, and martial law was declared. General strikes in Beirut and Sidon were partially effective, despite the refusal of the trade unions to participate. Throughout the week, security forces were able to maintain a fair degree of control in most areas, although at least four persons were killed and eight wounded.

The demonstrations apparently were strictly Lebanese affairs. None of the casualties is known to have been Palestinian, and fedayeen elements did not play a role in the violence.

Last week's protests focused primarily on the government's lack of success in its war on inflation, which has been waged with somewhat greater determination since an effective one-day general strike last August. They also were an extension of student demonstrations during the preceding week protesting Secretary Kissinger's visit, the government's detention of a newspaper publisher, and the lack of educational reform.

Some opponents of the government have sought to transform this popular discontent into a Christian-Muslim dispute. They have had only limited success, however, and it is unlikely that the current round of protests will force major changes in Prime Minister Sulh's six-month-old government.

INDONESIA - ARAB STATES: Indonesia plans to petition the Arab states to end their oil embargo. At the Islamic summit meeting, scheduled for late February in Lahore, Jakarta will argue that in the long run the embargo harms the poor, developing countries more than the rich, industrial states that are the intended targets. Jakarta intends to seek support for its petition from non-Islamic states, beginning with other members of the Association of Southeast Asian Nations, in order to improve its claim as spokesman for the interests of the developing states.

Although it is a major crude oil exporter, Indonesia is suffering from sharply increased import prices for fertilizer and other petrochemical products, as well as for finished industrial goods like steel. Industrial states are passing along spiraling energy costs to their consumers, forcing nations like Indonesia to spend foreign exchange earmarked for development projects.

Indonesia's petition is unlikely to affect decisions on the oil embargo and may well intensify Arab doubts about the sincerity of Jakarta's support for the Arab cause. Indonesian leaders, however, think it important to underline the point that the embargo is a double-edged sword.

[REDACTED]

CHINA: Peking's foreign trade increased at an unprecedented rate in 1973. Preliminary returns indicate that total trade jumped from \$5.8 billion in 1972 to more than \$8 billion this year. Imports increased to about \$4.5 billion from \$2.8 billion; exports rose more slowly--to about \$4 billion, up from almost \$3.1 billion in 1972. Peking's trade deficit with the non-Communist world probably was some \$500 million.

Sharp increases in the volume--and cost--of imported agricultural products, and accelerated purchases of whole plants, highlighted China's trade with the West. The US was China's largest supplier of farm products in 1973, and moved up to number two among Peking's trading partners. China's export earnings were boosted by increased rice exports at substantially higher world prices and by price hikes for most goods it sold at the Canton fairs.

Trade in 1974 will continue to increase at a substantial rate. Peking already has signed contracts for larger quantities of agricultural products in 1974 than in all of 1973. Deliveries connected with China's billion-dollar plant import program will begin next year, and China will receive other machinery and equipment worth more than \$500 million which were ordered this year. Trade with the US in 1974 may surpass the \$1 billion level, primarily because of continued large agricultural imports.

China's trade deficit with the non-Communist countries will again be substantial; to finance this deficit, Peking will make use of various short- and medium-term credit arrangements. [REDACTED]

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SPAIN: The general atmosphere has become more normal following the funeral of Prime Minister Carrero Blanco on December 21.

Generalissimo Franco, who did not attend the funeral, was present at a memorial service on Saturday. He is expected to name a new prime minister within the ten-day period specified by the constitution.

The police have identified six Basque terrorists as the assassins and are taking steps to apprehend them. All reportedly are members of an outlawed separatist organization known as Basque Fatherland and Liberty (ETA). The ETA has been involved in a number of bombings, kidnappings, and bank robberies in northern Spain to dramatize demands for a separate state and to raise funds to continue its struggle.

Meanwhile, the trial of the "Carabanchel Ten" dissident labor leaders concluded Saturday with a demand by the prosecution for sentences of 12 to 20 years for "illegal association." A verdict of guilty is expected before the end of the year. The Spanish Communist Party, of which most of the defendants reportedly are members, and other antiregime elements had expected to use the trial to publicize the absence of human rights and free trade unions in Spain. Their hopes were dimmed by the greater publicity accorded to the assassination, but a number of foreign observers who were present did hold a press conference in Madrid. They issued a statement attacking the government for the conduct of the trial and for restrictions on political rights.

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FOR THE RECORD*

International Oil: The six oil-producing countries in the Persian Gulf will double their sales price of oil to \$7 per barrel as of January 1. A full meeting of the Organization of Petroleum Exporting Countries (OPEC) will be held on January 7 to discuss the price rise. The Shah of Iran has indicated that OPEC will call for a meeting with the US, Western Europe, and Japan to determine a method of fixing prices in the future. [REDACTED]

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Oil Embargo: US embassies in Abu Dhabi and Kuwait report that Arab oil ministers will meet in Kuwait this week to discuss the impact of the Arab oil embargo. There are indications that Algeria will argue for an easing of the embargo. Meanwhile, a high-ranking Kuwaiti official has told US diplomats that quick progress on even one aspect of the Middle East problem would allow Kuwait and Saudi Arabia to let up on the boycott. [REDACTED]

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Islamic Summit: Pakistani Prime Minister Bhutto has announced that Islamic heads of state will meet in Lahore on February 22-23 to discuss the Middle East. Their foreign ministers will meet on February 19-20. There has been considerable slippage in the scheduling of the summit, in part because several important Islamic leaders do not want to attend. Until Bhutto's announcement, the meeting had been expected to take place in mid-January. [REDACTED]

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**These items were prepared by CIA without consultation with the Departments of State and Defense.*

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